Table 2

DECEMBER 1984

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:3	84:4	85:1	85:2	85:3	85:4	86:1	86:2	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,700	2,636	2,643	2,663	2,729	2,780	2,797	2,930	1,948	2,719	2,828	2,703	3,000
Percent Change - Year Ago	-2.5	-4.4	-10.1	-12.3	1.1	5.4	5.8	10.0	-17.2	39.6	4.0	-4.4	11.0
Dollar Volume (billions)	235.9	228.4	231.5	236.8	243.6	245.8	252.3	270.2	156.5	224.5	244.3	239.4	276.2
Existing Home Prices - Median ($1000's)	73.6	73.7	75.0	76.6	77.2	76.8	78.5	80.5	67.7	69.8	73.0	76.4	80.3
Percent Change - Year Ago	3.6	5.2	4.5	4.7	5.0	4.3	4.7	5.1	2.3	3.2	4.6	4.6	5.1
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	702	665	657	662	650	651	666	697	754	633	670	655	699
Percent of Household Income	23	21	21	20	20	20	20	20	28	22	22	20	20
NAR Affordability Index	83.9	85.6	88.9	89.7	90.3	92.4	91.7	90.7	68.4	82.0	85.7	90.3	91.2
New Single-Family Home Sales (thousands)	616	626	627	608	569	558	637	662	417	626	642	591	670
Percent Change - Year Ago	4.9	-6.8	-9.3	-4.0	-7.6	-10.9	1.6	8.9	-4.3	50.1	2.5	-8.0	13.4
New Home Prices - Median ($1000's)	80.2	80.7	81.4	82.3	83.3	84.5	85.8	87.3	69.3	75.5	79.8	82.9	88.1
Percent Change - Year Ago	3.3	6.3	4.4	2.3	3.9	4.7	5.5	6.1	0.7	8.9	5.8	3.8	6.3
New Home Prices--Mean ($1000's, Quality Adjusted)	94.9	94.3	95.3	96.2	97.8	98.2	99.9	101.5	87.8	89.7	93.4	96.9	102.4
Percent Change - Year Ago	4.6	4.5	4.7	3.0	3.1	4.1	4.8	5.5	2.8	2.1	4.2	3.7	5.7
New Mortgage Commitments ($ billions)	154.3	144.7	155.2	164.8	169.0	174.0	183.2	192.9	64.8	163.4	174.2	165.7	195.4
Percent Change - Year Ago	-19.6	-11.8	-18.8	-20.2	9.5	20.3	18.0	17.1	8.1	152.1	6.6	-4.8	17.9
Mortgage Debt Outstanding ($ billions)	1,988	2,064	2,143	2,223	2,302	2,382	2,302	2,252	1,629	1,752	1,962	2,263	2,249
Homeowners' Equity ($ billions)	2,710	2,754	2,783	2,795	2,822	2,858	2,901	2,951	2,336	2,519	2,701	2,814	2,981
Housing Inventory (millions)	91.3	91.7	92.0	92.4	92.7	93.1	93.4	93.8	88.5	89.6	91.1	92.5	94.0
Private Housing Starts (thousands)	1,662	1,641	1,654	1,693	1,718	1,743	1,846	1,886	1,056	1,704	1,792	1,702	1,895
Single-Family	981	1,004	1,020	1,047	1,084	1,120	1,164	1,188	663	1,066	1,100	1,068	1,199
Percent of Total	59.0	61.2	61.7	61.8	63.1	64.2	63.1	63.0	62.8	62.6	61.3	62.7	63.3
Multi-Family	682	637	634	646	633	623	682	699	394	637	692	634	696
Percent of Total	41.0	38.8	38.3	38.2	36.9	35.8	36.9	37.0	37.2	37.4	38.7	37.3	36.7
Mobile Home Shipments (thousands)	294	295	303	299	302	293	302	305	240	296	295	299	308
Rental Vacancy Rate (%)	6.0	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.3	5.6	5.7	5.6	5.5
Unsold New Homes (% of sales)	54.1	58.2	54.2	50.2	49.9	49.9	49.1	46.2	65.2	43.0	51.2	51.1	46.5
Office Vacancy Rate (%)<1>	11.5	11.1	10.7	10.4	10.1	9.9	9.7	9.5	8.0	11.7	12.3	10.3	9.5
Industrial Vacancy Rate (%)<1>	4.4	4.2	4.0	3.9	3.8	3.8	3.7	3.7	4.4	4.9	4.5	3.9	3.6
New Commercial Building Construction (% Ch Value)	13.2	-5.2	-0.2	3.7	4.6	11.9	18.7	18.4	9.0	-4.2	33.7	5.6	13.3
New Industrial Building Construction (% Ch Value)	13.0	22.6	23.4	18.9	7.8	5.9	7.7	12.0	2.5	-25.7	12.8	17.5	11.0
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	4.6	0.7	4.1	5.7	6.4	6.9	6.4	6.5	6.6	11.1	6.5	4.4	6.4
M1 Velocity (% change)	1.0	5.2	2.1	-0.8	-2.1	0.5	1.5	3.0	-2.6	-3.1	4.0	1.5	1.2
M2 (% change)(FED Target 6-9%)	6.4	6.5	6.4	5.9	8.1	8.7	8.1	7.6	9.5	12.6	7.5	6.7	7.8
M2 Velocity (% change)	-0.7	-0.6	0.0	-1.0	-3.7	-1.2	-0.1	2.0	-5.3	-4..	3.0	-0.7	0.0
Monetary Base (% change)	6.3	3.7	6.3	5.7	5.1	4.9	5.7	6.9	6.9	9.5	8.1	5.6	5.9
Flow of Funds													
Supply (total)	453	451	448	440	426	433	441	459	212	280	427	437	460
Personal Savings	164	161	164	156	146	152	161	168	136	118	156	154	167
Savings Rate	6.3	6.1	6.1	5.7	5.3	5.4	5.6	5.8	6.2	5.0	6.0	5.6	5.7
Net Business Savings	116	115	111	109	102	98	92	96	29	76	113	105	95
State + Local Govt. Savings	46	47	48	48	47	48	51	54	33	44	50	48	55
Foreign Funds(current account deficit)	127	129	125	127	130	135	137	141	13	42	108	129	144
Demand (total)	389	393	425	242	334	435	485	245	165	325	406	359	414
Consumer Installment Debt(net change)	70	43	33	19	21	22	23	28	19	40	69	24	31
Commercial+Industrial Loans(net change)	58	5	4	2	8	13	29	32	22	-2	43	7	40
Home Mortgage Debt(net change)	128	90	100	105	103	108	108	109	-6	96	117	104	112
Federal Deficit	133	256	288	117	201	291	324	76	131	190	176	224	231
Trade-Weighted Exchange Rate	1.119	1.128	1.104	1.086	1.065	1.044	1.025	1.005	0.988	1.024	1.091	1.075	0.998
Selected Interest Rates (Percent)													
Mortgage Commitment Rates													
30 Year,Fixed-Rate	14.7	13.9	13.5	13.3	12.9	13.0	13.0	13.0	17.2	13.9	14.1	13.2	13.0
Real Mortgage Rate	11.0	10.1	9.3	9.6	9.1	8.3	8.2	8.1	12.9	10.2	10.3	9.1	8.0
1 Year ARM (without buy-down)	13.5	11.9	11.0	10.7	10.7	10.8	11.1	10.9	14.0	11.3	12.6	10.8	11.2
Real Mortgage Rate	9.8	8.2	6.8	7.0	6.9	6.1	6.3	6.0	9.7	7.5	8.8	6.7	6.2
Corporate Bond Rate (AAA)	13.0	12.5	12.1	11.8	11.6	11.5	11.5	11.6	13.8	12.0	12.8	11.7	11.7
Government Bond Rate	12.8	11.9	11.3	11.2	11.0	10.9	11.0	11.1	12.9	11.3	12.5	11.1	11.1
Real Government Bond Rate	9.1	8.1	7.1	7.5	7.2	6.2	6.2	6.2	8.7	7.6	8.7	7.0	6.1
Federal Funds Rate	11.4	9.6	8.7	8.6	8.8	9.1	9.7	9.5	12.3	9.1	10.3	8.8	10.0
3 Month Treasury Bill Rate	10.3	9.0	8.2	7.9	8.0	8.1	8.5	8.3	10.6	8.6	9.6	8.1	8.6
Real 3 Month T-Bill Rate	6.6	5.2	4.0	4.2	4.2	3.5	3.6	3.4	6.4	4.8	5.8	4.0	3.6
1 Year Treasury Bill Rate	11.8	10.2	9.3	9.0	9.0	9.1	9.4	9.2	12.3	9.6	10.9	9.1	9.5
Commercial Paper Rate	11.1	9.5	8.7	8.5	8.6	8.9	9.4	9.2	11.9	8.9	10.2	8.7	9.6
Rate on Money Market Fund Shares	11.3	9.6	8.8	8.6	8.7	9.0	9.6	9.4	12.1	9.0	10.3	8.8	9.8
Prime Rate	13.0	12.1	11.3	10.7	10.6	10.6	11.2	11.3	14.9	10.8	12.1	10.8	11.5

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, and Dick Peach.

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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JANUARY 1985

Outlook for the Economy and Real Estate

Aggregate Economy

The sharp decline in interest rates over the past four months has breathed new life into the economic recovery. In its flash estimate the U.S. Department of Commerce estimates that real or inflation-adjusted Gross National Product (GNP) increased 2.8 percent during the fourth quarter of 1984, up from just 1.6 percent during the third quarter. This reacceleration of economic growth is evident in several key indicators of economic performance for November, such as the 0.4 percent increase in industrial production, the 1.3 percent increase in the index of leading indicators, and the increases in all categories of consumer spending.

While the rate of economic growth slowed dramatically during the second half of 1984, the risks that this slowdown marks the end of the expansion have been greatly reduced by the decline in interest rates. Aggregate demand for goods and services remains strong, however, much of that demand is being satisfied by imports. In fact, the increase in imports accounts for about half of the decline in GNP growth during the second half of 1984. Moreover, few of the imbalances in the economy which characterize the onset of a recession exist at this time. Inflation remains moderate with no sign of acceleration. The ratio of inventories to sales remains below historical averages. Unemployment remains high, keeping downward pressure on wages.

A slowing of the rate of growth of GNP is typical at this stage of an economic recovery. In fact the current slowdown has occurred about two quarters later than the average of six preceeding recoveries[1/]. The current slowdown has all the markings of a growth recession where the rate of economic growth remains positive but below the long-run trend growth rate (3 percent) for about four quarters. The economy then returns to fairly rapid growth but the rate of expansion remains below that which occurred prior to the growth recession. Since 1948 there have been three periods when the economy has followed this growth recession scenario.

The growth of the economy should remain sluggish (1.5 to 2 percent) during the first two quarters of 1985. Spending by consumers should remain fairly weak over this period as the ratio of consumer installment debt as a share of disposable income is now approaching its 1979 peak. The rate of personal savings will remain relatively high as consumers work down this debt burden. Further, with the dollar remaining very strong, a growing proportion of domestic spending will go toward imports, depressing domestic production. While housing starts should improve on a seasonally-adjusted annual rate basis due to the decline in interest rates, actual starts will remain fairly low until spring when home sales pick up and the current inventory of unsold homes is reduced. Growth in business investment should remain at modest levels over the near term as weaker sales have reduced business cash flow, forcing a growing number of firms to seek external financing to continue existing investment projects.

1/ The 1980-81 recovery is not included in this comparison since it lasted just 5 quarters.

During the second half of 1985 overall growth should accelerate to the 3 percent level due to increases in residential investment and consumption spending. For all of 1985 real GNP should increase about 2 1/2 percent compared to 6.7 percent during 1984. The expansion should then continue through 1986 with continued growth of consumer spending and a recovery of business investment boosting overall growth to about 3 1/2 percent.

Employment and Inflation

Nonfarm payroll employment increased by 309,000 or 0.3 percent in December, a little less than November but still a healthy increase. However, due to an even larger increase in the labor force, the civilian unemployment rate rose 0.1 percentage points to 7.2 percent. As another indication of improvement, the average weekly hours worked increased 0.3 percent over the November level. Sluggish growth of the economy should cause the unemployment rate to rise above 7 1/2 percent by the end of 1985 as growth of the labor force exceeds growth in employment.

The brightest spot in the economic outlook is the continued moderate pace of inflation. In November the Consumer Price Index (CPI) rose just 0.2 percent compared to 0.4 percent in the previous two months due largely to smaller increases in food and transportation costs and stable or declining import prices. For all of 1985 the CPI should increase about 3 1/2 percent compared to 4.3 percent in 1984.

At this point there is very little likelihood of an increase in inflation in the near term. Good harvests around the world should keep food prices stable while oil prices are likely to fall 10 to 20 percent. However, by 1986 inflation should begin to accelerate as labor costs increase due to a combination of slower productivity growth and faster increases in labor compensation.

Monetary Policy and Interest Rates

The increase in interest rates over the first half of 1984 and the resulting slowdown of the economy have made it apparent that the policy stance adopted by the Federal Reserve Board (FED) last spring was inconsistent with its own growth targets for the monetary aggregates. During the first six months of 1984 the nation's basis money supply, M1, increased at a compound annual rate of 8.3 percent while from July through November it increased at a compound annual rate of just 1.4 percent. It now looks as though 1984 growth rates for both M1 and M2 will be at about the middle of their respective target growth rates whereas growth at the upper one-half of those target ranges would have been more appropriate.

Fortunately, weaker private credit demand along with a more accomodative monetary policy during the final quarter of 1984 have resulted in sharp declines in interest rates. From a peak of about 10 1/2 percent in August the rate on 3-month Treasury Bills has fallen to a little under 8 percent. Long-term rates (corporate bonds and fixed-rate mortgages) have declined about 1 percentage point.

TABLE 1
Selected Interest Rates

	Treasury Bills				Mortgage Commitment Rate	
	3 Months	6 Months	1 Year	AAA Corporate Bonds	Fixed Rate	Adjustable-Rate
Aug	10.47	10.61	11.82	12.87	15.00	12.89
Sept	10.38	10.50	10.52	12.66	14.90	12.88
Oct	9.85	10.05	10.00	12.54	14.70	12.85
Nov	8.67	8.90	9.06	12.31	14.09	12.42
Dec	8.18	8.46	8.64	12.15	13.82	12.16

Short-term interest rates should continue to trend downward during the first six months of 1985 due to the weakness of the economy and continued ease on the part of the FED. The yield on three month Treasury bills, currently at about 8 percent, could fall as low as 7 percent during the spring. However, as the economy rebounds in the second half of the year short-term rates should turn upward with the rate on 3-month Treasury bills back up to 8 percent or above by the beginning of 1986.

Long-term rates should trend downward over most of 1986 due to reduced private credit demands and to increasing acceptance by investors that inflation will remain modest for the foreseeable future. The effective commitment rate for 30-year, fixed-rate mortgage loans, which is currently about 13.8 percent, should decline another one percentage point over the next twelve months to 12 1/2 to 13 percent before leveling off during 1986.

Residential Real Estate Markets

Residential real estate markets are responding very quickly to the decline in mortgage interest rates. In November sales of existing single-family homes increased 9.1 percent to a seasonally adjusted annual rate of 2.89 million units. Single-family housing starts in November were at a seasonally adjusted annual rate of 966,000 units, virtually unchanged from the October level. In total the single-family market advanced 6.5 percent during the month. The decline in interest rates has provided a larger boost to the resale market since builder buydowns are now less attractive. The decline in mortgage rates boosted the NAR Affordability Index for November to 85.6 percent, the highest level since last June.

Both single-family resales and starts should continue to improve through both 1985 and 1986 as lower mortgage rates, higher incomes, and moderate increases in home prices boost the Affordability Index over the 90 percent level. For all of 1985 a total of nearly 3 million existing single-family homes should change hands while single-family starts should increase a little over six percent to 1.17 million units. In 1986 single-family resales should increase to 3.1 million units while single-family starts level off at 1.17 million units.

Starts of new multi-family residential units should increase a modest 1 percent in 1985 to about 680,000 units and then rise about 7 percent to 730,000 units in 1986. Multi-family units as a proportion of total housing starts have risen from 29.1 percent in 1978 to about 38 percent in 1984. This trend should continue as the affordability issue continues to boost demand for rental units and condominums in place of higher priced single-family units.

Commercial and Industrial Real Estate Markets

Residential construction in both 1983 and 1984 has created a corresponding demand for retail and warehouse space of about 480 million square feet during 1984 and 500 million square feet in 1985. Despite an oversupply of office space the level of contracts for new office space increased 7 percent to 300 million square feet in 1984. Contracting in this sector should decline to 240 million square feet in 1985. While representing a drop of 20 percent over 1984 this level still exceeds the estimated long-run demand of 200 million square feet per year of new office space. Contracts for new industrial buildings increased an estimated 45 percent in 1984 to 155 million square feet as manufacturers expand, modernize, and relocate their plant facilities. In 1985 contracts for new industrial buildings should increase 13 percent to 175 million square feet. Investment in all types of commercial and industrial real estate will be lower than otherwise would be the case due to uncertainty over tax reform. Serious tax reform proposals that have been introduced thus far are anti- investment and pro-consumption.

TABLE 2
Commercial and Industrial Building Contracts

	Stores and Other Commercial		Office Buildings		Industrial Buildings	
	millions of sq ft	percent change	millions of sq ft	percent change	millions of sq ft	percent change
Year						
1981	337	-11%	325	+15%	187	-13%
1982	245	-27%	261	-20%	118	-37%
1983	362	+48%	281	+ 8%	107	-37%
1984p	477	+32%	300	+ 7%	155	+45%
1985f	500	+ 5%	240	-20%	175	+13%

SOURCE:

Historical Data: DRI, Review of the U.S. Economy, December 1984.
Forecasts: National Association of Realtors

p = Preliminary
f = Forecast

Table 3

JANUARY 1985

U.S. ECONOMIC OUTLOOK

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:3	84:4	85:1	85:2	85:3	85:4	86:1	86:2	1982	1983	1984	1985	1986
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,695	3,748	3,799	3,847	3,895	3,952	4,022	4,098	3,069	3,305	3,660	3,873	4,146
Percent Change	5.6	5.9	5.5	5.2	5.1	6.0	7.3	7.7	3.8	7.7	10.8	5.8	7.0
Percent Change (without inflation)	1.6	2.7	1.6	2.1	2.4	2.7	3.2	3.4	-2.1	3.7	6.7	2.4	3.3
Consumption	0.7	3.6	3.8	3.1	2.7	2.6	2.9	3.2	1.4	4.8	5.3	3.3	3.0
Durables	-3.6	11.4	6.8	4.2	3.7	2.8	3.2	4.0	-0.3	12.1	12.9	5.4	3.8
Nondurables	-1.2	0.1	3.1	2.9	2.6	2.6	2.7	2.9	0.6	3.7	4.6	2.3	2.8
Services	3.8	3.8	3.2	2.8	2.4	2.6	3.0	3.2	2.5	3.4	3.3	3.3	3.0
Residential Investment	-4.5	-7.4	4.1	12.0	17.6	8.1	4.5	-1.1	-15.0	41.7	12.0	3.8	4.8
Nonresidential Investment	13.7	5.5	5.8	3.8	3.4	3.9	6.8	7.1	-4.7	2.5	19.6	6.7	6.0
Structures	2.0	3.6	7.2	2.4	2.1	4.5	12.3	10.8	0.2	-7.8	14.7	4.9	8.0
Equipment	18.6	6.3	5.2	4.3	3.8	3.7	4.9	5.7	-6.8	7.3	21.6	7.4	5.3
Exports	7.7	6.8	4.7	4.4	4.5	5.1	6.3	7.9	-7.8	-5.6	5.2	5.1	6.4
Imports	55.4	-6.1	6.9	6.8	6.6	6.0	5.4	5.4	1.3	7.6	29.2	9.1	5.8
Government Purchases	5.4	5.0	5.2	4.2	2.0	0.6	4.8	2.2	2.0	-0.3	3.4	5.1	2.5
Consumption (% of GNP)	64.8	64.9	65.3	65.4	65.5	65.5	65.4	65.4	65.1	65.8	64.9	65.4	65.2
Residential Investment (% of GNP)	3.7	3.6	3.6	3.7	3.8	3.8	3.9	3.8	2.6	3.5	3.7	3.7	3.8
Nonresidential Investment (% of GNP)	12.7	12.8	12.9	13.0	13.0	13.1	13.2	13.3	11.3	11.1	12.5	13.0	13.3
Structures (% of GNP)	3.5	3.5	3.5	3.5	3.5	3.5	3.6	3.7	3.6	3.2	3.4	3.5	3.7
Equipment (% of GNP)	9.3	9.3	9.4	9.5	9.5	9.5	9.6	9.6	7.7	7.9	9.0	9.5	9.7
Inventory Change ($ billions)	71.8	46.2	24.3	13.1	8.5	11.7	11.4	13.0	-26.1	-13.5	60.6	14.4	19.3
Mfg. Capacity Utilization Rate (%)	83	82	82	81	81	80	81	81	71	75	82	81	82
Auto Sales (millions of units)	10.3	10.4	10.8	10.8	10.7	10.7	10.6	10.7	8.0	9.2	10.5	10.7	10.7
Domestic (% of total)	77.3	72.5	77.2	77.0	74.0	72.9	72.6	72.4	72.3	74.0	75.3	75.3	71.9
Imported (% of total)	22.7	27.5	22.8	23.0	26.0	27.1	27.4	27.6	27.9	26.0	23.7	24.7	28.1
Manufacturing Industrial Production (% change)	6.8	-1.0	1.7	0.6	1.5	1.9	6.0	5.0	-8.5	7.8	11.2	2.0	4.3
Common Market	12.7	4.2	1.7	3.0	4.1	2.5	1.8	3.1	-1.4	0.8	3.2	3.3	2.7
Japan	7.1	4.1	9.2	4.1	4.5	0.6	2.4	2.5	0.4	3.5	10.6	5.9	2.6
Employment(millions)(civilian:household basis)	105.2	105.8	106.2	106.5	107.1	107.5	108.0	108.5	99.5	100.8	105.0	106.8	108 9
Percent Change	0.2	2.4	1.4	1.3	2.0	1.7	2.0	1.7	-0.9	1.3	4.1	1.8	2.0
Unemployment Rate (%) (civilian)	7.5	7.3	7.5	7.5	7.6	7.7	7.7	7.6	9.7	9.6	7.5	7.6	7.6
Personal Income per Household (average)<1>	38,924	39,476	39,942	40,272	40,569	41,055	41,671	42,357	33,653	35,415	38,532	40,460	42,736
Percent Change -- Year Ago (w/o inflation)	6.0	4.6	3.0	1.8	1.0	0.9	1.1	1.6	-0.5	1.5	5.3	1.7	1.9
Personal Taxes per Household (average)	7,028	7,159	7,235	7,301	7,359	7,468	7,510	7,671	6,434	6,478	6,955	7,341	7,752
Percent Change -- Year Ago (w/o inflation)	6.0	5.5	3.7	2.3	1.5	1.1	0.6	1.6	-2.2	-3.0	3.4	2.2	1.9
Percent of Personal Income	18.8	18.9	18.9	18.9	19.0	19.0	18.8	18.9	19.9	19.1	18.8	19.0	19.0
Disposable Income per Household (average)	31,897	32,317	32,707	32,971	33,209	33,587	34,161	34,686	27,219	28,938	31,578	33,119	34,984
Percent Change--Year Ago (w/o inflation)	5.8	4.4	3.0	1.7	1.0	1.0	1.3	1.7	-0.1	2.5	5.7	1.7	1.9
Household Interest Payments (% of total)	10.4	10.3	10.2	10.3	10.6	10.7	10.6	10.5	9.6	9.8	10.4	10.5	10.4
Net Worth Per Household (average)	78,659	80,154	81,377	82,678	83,545	85,293	86,932	89,417	66,105	73,840	77,715	83,223	90,653
Percent Change--Year Ago (w/o inflation)	1.1	2.8	4.0	4.5	3.0	3.2	3.5	4.6	-1.9	7.6	1.4	3.6	5.1
Consumer Price Inflation (CPI)	3.6	4.0	3.5	3.1	3.0	3.2	4.1	4.3	6.2	3.2	4.3	3.5	3.8
Gross National Product Inflation (GNP Deflator)	4.0	3.1	3.8	3.0	2.6	3.2	3.9	4.0	6.0	3.8	3.8	3.3	3.6
Personal Consumption Inflation	4.3	3.5	3.1	2.8	2.8	3.0	3.9	4.0	5.9	3.7	3.3	3.2	3.6
Residential Construction Inflation	4.5	0.8	1.9	2.5	2.7	3.1	4.7	5.4	3.0	1.7	3.9	2.9	4.3
Nonresidential Construction Inflation	1.7	1.6	2.3	2.5	3.1	3.5	5.1	6.0	4.9	-1.0	0.3	2.3	4.8
Producers Price Inflation (WPI)	-0.7	0.3	1.6	1.2	1.8	2.7	3.4	3.7	2.0	1.3	2.4	1.1	3.2
Compensation per Manhour (% change)	3.6	3.3	4.9	3.7	3.7	4.3	5.9	5.0	8.0	4.8	4.1	3.9	4.9
Productivity (% change)	-0.7	1.1	0.4	1.5	1.8	1.8	1.7	1.8	0.2	3.4	2.7	1.1	1.8
Unit Labor Cost (% change)	4.6	1.9	4.5	2.2	1.8	2.4	4.2	3.2	7.8	1.3	1.4	2.7	3.1
Unit Capital Cost (% change)	4.4	4.2	4.0	3.7	3.4	3.2	2.9	2.7	9.5	6.9	4.6	3.6	2.6
Before Tax Corporate Profits ($ billions)<2>	232	225	224	224	225	223	231	239	181	213	241	224	245
Corporate Tax Liability	91	88	87	86	87	86	93	98	76	86	96	86	102
After Tax Profits	142	137	137	138	139	137	137	140	105	127	145	138	143
Inventory Valuation Adjustment	0	0	-5	-6	-9	-13	-17	-18	-9	-11	-5	-8	-20
Capital Consumption Adjustment	58	64	69	75	79	85	86	89	3	33	55	77	89
Profits from Current Production (with IVA, CCA)	200	201	201	206	209	208	207	210	98	149	195	206	212
Adjusted for Inflation (84:3 base)	200	199	198	201	203	200	197	199	107	156	196	201	199
Percent Change - Year Ago	19.9	10.3	5.1	2.1	1.5	0.6	-0.3	-1.3	-14.6	46.0	25.9	2.3	-0.7
Per Unit of Output (% of GNP)	5.4	5.4	5.3	5.4	5.4	5.3	5.1	5.1	3.2	4.5	5.3	5.3	5.1
Effective Corporate Tax Rate (%)<2>	30	29	29	28	28	28	30	31	39	34	31	28	31
Federal Tax Receipts (Unified basis)	701	637	642	822	730	670	662	916	609	613	676	716	770
Percent of GNP	19.0	17.0	16.9	21.4	18.8	17.0	16.5	22.3	19.8	18.6	18.5	18.5	18.6
Federal Expenditures (Unified basis)	833	887	923	935	922	951	984	994	740	803	851	933	1,002
Percent of GNP	22.6	23.7	24.3	24.3	23.7	24.1	24.5	24.3	24.1	24.3	23.2	24.1	24.2
Surplus or Deficit (Unified basis)	-133	-250	-282	-113	-191	-281	-323	-79	-131	-190	-175	-217	-232
% of GNP	3.6	6.7	7.4	2.9	4.9	7.1	8.0	1.9	4.2	5.8	4.8	5.6	5.6
% of Personal Savings	80.8	156.4	181.4	77.2	139.3	203.1	218.3	52.4	97.8	158.1	111.9	150.3	154.0
% of Net Domestic Savings	40.1	76.9	88.0	36.0	62.0	91.9	101.6	24.3	67.3	80.0	54.4	69.5	71.1

<1> Includes personal contributions for social insurance
<2> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Dr. Richard Peach, and Janemarie Mulvey.

Table 4

REAL ESTATE AND FINANCIAL MARKETS

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	84:3	84:4	85:1	85:2	85:3	85:4	86:1	86:2	1982	1983	1984	1985	1986
REAL ESTATE MARKETS													
Total Single-Family Home Sales (thousands)	3,663	3,792	3,963	4,084	4,168	4,212	4,247	4,233	2,590	3,754	3,944	4,107	4,239
(single-family resales and completions)													
Percent Change -- Year Ago	-3.8	0.8	-5.2	-1.3	13.8	11.1	7.2	3.6	-14.8	44.9	5.1	4.1	3.2
Existing Single-Family Home Sales (thousands)	2,713	2,828	2,900	2,950	3,000	3,050	3,070	3,090	1,948	2,719	2,879	2,975	3,100
Percent Change - Year Ago	-2.1	2.6	-1.4	-2.9	10.6	7.9	5.9	4.8	-17.2	39.6	5.9	3.3	4.2
Dollar Volume (billions)	237.0	241.2	254.7	263.4	268.7	266.7	278.5	287.0	156.5	224.5	247.8	263.4	285.3
Existing Home Prices - Median ($1000's)	73.6	72.5	75.2	76.9	77.5	75.9	79 0	81.0	67.7	69.8	72.7	76.4	80.3
Percent Change - Year Ago	3.6	3.5	4.8	5.2	5.3	4.7	5.0	5.4	2.3	3.2	4.2	5.0	5.2
Monthly Mortgage Payment (P&I. 80%, 30 yr.)	702	654	647	647	642	629	664	682	754	633	667	641	682
Percent of Household Income	23	21	20	20	20	19	20	20	28	22	22	20	20
Private Housing Starts (thousands)	1.664	1,569	1,697	1,835	1,931	1,938	1,970	1,914	1,056	1,704	1,774	1,850	1,900
Percent Change - Year Ago	-6.6	-7.6	-13.8	-3.2	16 1	23.5	16.1	4.3	-3.7	61.3	4.1	4.3	2.7
Single-Family	979	995	1,096	1,169	1,204	1,198	1,213	1,178	663	1.066	1,097	1 167	1,174
Percent of Total	58.9	63.4	64.6	63.7	62.4	61.8	61.6	61.5	62.8	62.6	61.8	63.1	61.8
Multi-Family	684	575	601	665	727	740	757	736	394	637	677	683	726
Percent of Total	41.1	36.6	35.4	36.3	37.6	38.2	38.4	38.5	37.2	37.4	38.2	36.9	38.2
Mobile Home Shipments	294	299	303	314	340	335	341	336	240	296	296	323	340
New Single-Family Home Sales (thousands)	615	624	645	654	663	680	682	685	417	626	641	660	683
Percent Change - Year Ago	4.7	-7.1	-6.7	3.2	7.9	9.0	5.8	4.7	-4.3	50.1	2.3	3.1	3.4
New Home Prices - Median ($1000's)	80.7	80.4	80.9	81.5	82.2	83.0	84.0	85.3	69.3	75.5	79.9	81.9	85.9
Percent Change - Year Ago	3.9	5.9	3.8	1.3	1.9	3.2	3.9	4.6	0.7	8.9	5.9	2.5	4.9
New Home Prices--Mean ($1000's. Quality Adjusted)	94.9	94.4	95.2	95.6	96.8	96.8	98.2	99.3	87.8	89.7	93.4	96.1	100.2
Percent Change - Year Ago	4.6	4.7	4.6	2.4	2.0	2.5	3.2	3.9	2.8	2.1	4.2	2.8	4.3
NAR Affordability Index	84.1	85.9	89.5	91.7	91.7	97.3	91.8	92.2	68.4	82.0	85.8	92.6	92.2
New Mortgage Commitments ($ billions)	189.3	181.6	186.6	192.5	196 1	204.0	196.1	195.0	64.8	163.4	192.2	194.8	194.1
Percent Change - Year Ago	-1.4	10.7	-2.4	-6.8	3.6	12.3	5.0	1.3	8.1	152.1	17 6	1 4	-0.4
Mortgage Debt Outstanding ($ billions)	1 988	2,076	2 167	2,256	2,347	2,433	2,361	2 314	1,629	1,752	1,965	2 301	2,312
Homeowners' Equity ($ billions)	1,496	1,517	1.535	1,548	1,565	1,584	1,607	1,629	1,586	1,554	1,515	1,558	1,642
Housing Inventory (millions)	91.3	91.7	92.0	92.4	92.7	93.2	93.6	94.0	88.5	89.6	91.1	92.6	94.2
Rental Vacancy Rate (%)	6.0	5.6	5.6	5.6	5.6	5.6	5.6	5.5	5.3	5.6	5.7	5.6	5.5
Unsold New Homes (% of sales)	54.2	57.7	53.1	47.0	47.2	46.4	48.1	46.9	65.2	43.0	51.1	48.4	47.8
Office Vacancy Rate (%)<1>	11.5	11.1	10.7	10.4	10.1	9.9	9.7	9.5	8.0	11.7	12.3	10.3	9.5
Industrial Vacancy Rate (%)<1>	4.4	4.2	4.0	3.9	3.8	3.8	3.7	3.7	4.4	4.9	4.5	3.9	3.6
New Commercial Building Construction (% Ch Value)	7.3	19.5	8.2	1.2	-0.9	8.4	18.0	17.3	9.0	-4.2	34.8	10.3	11.1
New Industrial Building Construction (% Ch Value)	0.3	5.3	0.2	5.4	18.0	18.5	23.5	20.2	2.5	-25.7	10.0	6.4	20.9
FINANCIAL MARKETS													
Money Supply													
M1 (% change)(FED Target 4-8%)	4.6	1.4	5.4	5.7	4.8	5.0	6.2	5.9	6.6	11.1	6.5	4.6	5.7
M1 Velocity (% change)	0.9	4.4	0.1	-0.5	0.3	1.0	1.5	1.8	-2.6	-3.1	4.0	1.2	1.4
M2 (% change)(FED Target 6-9%)	6.4	8.9	7.0	7.0	6.2	6.3	7.1	7.6	9.5	12.6	7.7	7.1	7.0
M2 Velocity (% change)	-0.7	-2.8	-1.4	-1.7	-1.1	-0.3	0.7	0.2	-5.3	-4.4	2.9	-1.2	0.2
Monetary Base (% change)	6.5	2.7	7.9	5.2	4.5	4.3	5 2	6.0	6.9	9.5	8.0	5.7	5.4
Flow of Funds													
Sources (total:gross savings)	688	662	648	639	640	651	664	686	422	479	656	645	700
Private													
Personal Savings	164	160	155	146	137	138	148	150	136	118	155	144	150
Savings Rate	6.3	6.0	5.8	5.4	5.0	5.0	5.2	5.2	6.2	5.0	6.0	5.3	5.2
Gross Business Savings	525	530	533	542	549	553	557	568	388	454	517	544	574
Government													
Federal	-181	-185	-197	-208	-214	-215	-226	-223	-148	-179	-173	-209	-219
State and Local	48	48	50	49	52	51	58	60	33	44	51	51	61
Foreign (rrent account deficit)	132	109	106	109	116	124	127	131	13	42	105	114	134
Uses (total:gross investment)	663	641	629	629	639	654	671	689	415	472	639	638	704
Nonresidential Investment													
Equipment	284	289	293	297	301	306	312	319	208	223	275	299	325
Structures	151	153	157	159	161	164	171	178	142	130	149	160	181
Residential Investment	155	153	155	160	168	173	177	178	91	132	154	164	179
Inventory Investment	72	46	24	13	9	12	11	13	-26	-13	61	14	19
Value of the U.S. Dollar (Weighted by Trade) (Base=1967)	1.119	1.142	1.126	1.105	1.080	1.057	1.034	1.013	0.988	1.024	1.095	1.092	1.003
Percent Change	21.1	8.5	-5.6	-7.3	-8.5	-8.4	-8.4	-7.9	9.4	3.7	6.9	-0.3	-8.1
Selected Interest Rates (Percent)													
Mortgage Commitment Rates													
30 Year,Fixed-Rate	14.7	13.9	13.2	12.9	12.7	12.7	12 9	12.9	17.2	13.9	14.1	12.9	12.9
Real Mortgage Rate	10.7	10.8	9.4	9.9	10.1	9.5	9.0	8.9	12.9	10.2	10.4	9.7	8.8
1 Year ARM (without buy-down)	13.5	11.7	10.3	9.8	9.7	10.2	10.4	10.7	14.0	11.3	12.6	10.0	10.6
Real Mortgage Rate	9.5	8.6	6.5	6.9	7.1	6.9	6.5	6.7	9.7	7.5	8.9	6.8	6.5
Corporate Bond Rate (AAA)	13.0	12.4	11.6	11.4	10.9	11.0	10.8	10.8	13.8	12.0	12.7	11.2	10.7
Government Bond Rate	12.8	11.8	11.1	10.7	10.3	10.3	10.3	10.4	12.9	11.3	12.5	10.6	10.3
Real Government Bond Rate	8.9	8.6	7.3	7.7	7.6	7.1	6.4	6.4	8.7	7.6	8.8	7.4	6.2
Federal Funds Rate	11.4	9.2	7 7	7.5	7.8	8.5	9.1	9.4	12.3	9 1	10.2	7.9	9.4
3 Month Treasury Bill Rate	10.3	8.8	7.5	7.1	7.2	7.6	8.1	8.3	10.6	8.6	9.5	7.3	8.3
Real 3 Month T-Bill Rate	6.4	5.7	3.7	4.1	4.5	4.4	4.2	4.3	6.4	4.8	5.8	4.2	4.2
1 Year Treasury Bill Rate	11.8	10.0	8.6	8.1	8.0	8.5	8.7	9.0	12.3	9.6	10.9	8.3	8.9
Real 1 Year T-Bill Rate	7.8	6.9	4.8	5.2	5.4	5.2	4.8	5.0	8.0	5.8	7.2	5.1	4.8
Commercial Paper Rate	11.1	9.2	7.8	7.6	7.7	8.3	8.9	9 1	11.9	8.9	10.1	7.9	9.2
Rate on Money Market Fund Shares	11.3	9.3	7.9	7.7	7.8	8.5	9.0	9.3	12.1	9.0	10.3	8.0	9.3
Prime Rate	13.0	11.8	10.4	9.8	9.7	10.2	10.9	11.1	14.9	10.8	12.0	10.0	11.2

<1> Historical data courtesy of Coldwell Banker

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Dr. Richard Peach and Janemarie Mulvey

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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

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FEBRUARY 1985

Outlook for the Economy and Real Estate

Aggregate Economy

Stronger than expected gains in economic activity during the fourth quarter of 1984 have provided a strong footing on which to begin the new year. Lower interest rates and strong gains in personal income helped to boost consumer spending, while imports declined relative to exports during the fourth quarter of 1984 leading to an upward revision in real GNP growth to 3.9 percent. For all of 1984, real GNP growth reached 6.8 percent, its strongest showing since 1951.

Despite the re-acceleration in economic growth during the fourth quarter of 1984, a slight slowdown in real GNP is expected for 1985 with real growth reaching only 2.9 percent for the entire year. Evidence of this slowing trend can be found in the increase in the ratio of consumer debt to disposable income. This ratio, which is presently surpassing its previous peaks, should result in slower consumer spending in 1985 as consumers try to decrease their debt burden. Furthermore, growth in nonresidential investment, which reached 20 percent for all of 1984, is expected to slow to 7.5 percent for 1985 because of uncertainty about the fate of present investment incentives in the tax code. Finally, a strong dollar relative to other currencies will result in a further slowing in domestic production as imports continue to absorb a growing proportion of domestic demand. However, by 1986, a devaluation of the dollar and depleted inventories should pave the way for steady growth in real output of about 3.1 percent.

Longer term incentives for investment remain favorable. In response to the increase in import penetration into domestic markets, domestic businesses will be forced to become more efficient by improving their productivity and technology. In addition, as labor costs are expected to rise faster than the cost of equipment over the forecast interval, substitution away from labor and towards capital will become more cost effective, leading to more investment in residential and commercial structures and equipment.

Employment and Inflation

Employment improved for all of 1984 as total civilian employment increased 4.1 percent. Furthermore, the jobless rate which was 7.5 percent in 1984 was a marked improvement over the 9.6 percent unemployment rate in 1983. The unemployment rate is expected to remain around 7.3 percent for 1985 and increase slightly in 1986 as employment growth of two percent in 1986 is insufficient to absorb the growth in the labor force.

This most recent expansion has occurred with only modest gains in prices. Dispelling fears of future inflation the Consumer Price Index increased only four percent for all of 1984. Further evidence of moderating prices was seen in an increase of only 1.8 percent in producer prices, as falling commodity and energy prices contributed to the third smallest gain in the index in 20 years.

The outlook for inflation remains favorable as declines in oil prices as well as commodity prices continue to outweigh increases in cost of services through 1985. Producer prices are expected to increase just 0.8 percent for all of 1985, while consumer price inflation is expected to be only 3.4 percent.

By 1986, inflation is expected to accelerate slightly to 3.8 percent and climb to 4.1 percent by 1987 as the economy begins to heat up again.

Monetary Policy and Interest Rates

The Federal Reserve (FED), in trying to reverse the rapid decline in M1 during the middle of 1984, is expected to continue its accommodative stance adopted last fall. An accomodative monetary policy and low inflation should lead to further declines in interest rates for the first half of 1985. The prime leading rate charged by banks has been cut 250 basis points since September to 10-1/2 percent. However, in relation to the rate on 90 day CD's, which is presently 8 percent, the prime is still high. Historically, the spread between the prime and the CD rate has been 1-1/2 to 2 percent points, considerably less than it is now. Consequently, over the forecast interval the prime is expected to dip below 10 percent in 1985 before climbing to 11.4 percent by the end of 1986.

Convinced that inflation is well under control the FED has redirected its primary focus away from inflation and towards reducing unemployment. In fact, with producer price increases expected to remain below one percent for 1985, the FED will be sensitive to signals of disinflation and recession that may occur throughout the year.

Real Estate Markets

Activity in housing markets, after a shallow downturn, has begun to rebound as mortgage rates continue to trend downward. Existing single-family home sales reached 2.85 million units in December, 7.5 percent above the annual low of 2.65 million units in October. Housing starts, which recorded their first gain since September, increased 2.1 percent in December resulting in 1.744 million units started in 1984, the highest level since 1979.

Both existing home sales and housing starts are expected to trend upward through 1985 and 1986 as lower mortgage rates, modest inflation and increases in personal income are expected to boost the NAR Affordability Index. Effective commitment rates for 30 year fixed-rate mortgages are expected to drop to 12.7 percent by the middle of 1985, before increasing slightly to 13.2 percent by the end of 1986. However, the combination of increasing private credit demands and the existence of huge federal deficits will put upward pressure on interest rates in 1987 causing both resales and starts to decline below their 1984 levels.

Multi-family units owners are expected to lose the most from potential tax reform and face tough decisions in 1985. If either the Bradley-Gephardt or Treasury proposal were passed, the cost of owning multifamily units would rise dramatically thus dampening investment in this area. Consequently, supply would fall short of demand causing rents to increase sufficiently to attract investment in the long run.

Growth of construction of new commercial space should slow during 1985 and 1986 as apprehension about tax reform and an oversupply of office space dominates. For all of 1985, new commercial building construction should increase 12.4 percent compared to an increase of 38 percent in 1984. In contrast, the rate of growth of construction of new industrial buildings should increase to about 20 percent in 1985 from an increase of 13 percent in 1984.

Special Supplement
Macroeconomic Impacts of Tax Reform

At this time the three tax reform proposals receiving the most serious attention are the Kemp-Kasten "FAST" proposal (K-K), the Bradley-Gephardt "FAIR" proposal (B-G), and the Treasury Tax Reform Proposal (Treasury). Each of these proposals can be described as a modified flat tax. Each is an income tax as opposed to a consumption tax yet each moves toward the consumption tax concept by keeping or expanding current tax-free retirement saving (IRA and Keogh).

In order to achieve the objectives of simplicity, equity, and efficiency, each of these tax reform proposals makes the following changes to the current tax system:

1) expand both the personal and corporate tax base by repealing or limiting numerous deductions, exclusions and credits;

2) lower marginal tax rates; and

3) reduce both the steepness of the marginal tax rate schedule and the number of tax brackets.

All of these changes are made while keeping the total revenues raised by the tax system essentially unchanged (revenue neutrality), at least in the first year of enactment[1/]. However, some very significant changes do occur in the distribution of the tax burden between household income classes and between the household and corporate sectors.

Current law has 14 tax brackets for joint returns with marginal personal tax rates ranging from 11 percent to 50 percent. The B-G proposal contains three tax brackets with marginal rates ranging from 14 percent to 30 percent. The K-K proposal contains just one marginal tax rate, 24 percent, but includes an exclusion from tax of 20 percent of wage income up to the maximum Social Security wage base which effectively causes marginal tax rates to range from 20 percent to 28 percent. The Treasury proposal also contains three brackets but with marginal rates ranging from 15 percent to 35 percent. Table 1 presents a comparison of marginal personal tax rates by size of adjusted gross income.

1/ The B-G proposal repeals the indexation for inflation of brackets, personal exemptions, and the zero bracket amount or standard deduction and so raises more revenue that the current tax system in the out-years.